

Message Text

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E.O. 11652: XGDS

TAGS: ESTC, COCOM

SUBJECT: COMPUTER SALE TO BANK OF CHINA, HONG KONG

REF: (A) PARIS 19345; (B) STATE 116779

1. DEPARTMENT WAS ALSO APPROACHED JUNE 16 BY REPRESENTATIVE OF JAPANESE EMBASSY (NANAO), WHO RAISED SAME QUESTIONS KOBAYASHI RAISED WITH USDEL. WE HAD BEEN ALERTED EARLIER IN THE WEEK BY IBM THAT MITI WAS HOLDING UP ISSUANCE OF THE EXPORT LICENSE FOR THE MAINFRAME COMPUTERS IBM IS BUILDING AT ITS FACILITY IN JAPAN. JAPANESE FIRMS WERE ALLEGEDLY COMPETITORS WITH IBM IN THE BIDDING FOR THE BANK OF CHINA
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SALE, AND IBM HAS RECENTLY TOLD US IN CONFIDENCE, THAT A SIMILAR SALE IS NOW BEING CONSUMMATED WITH THE HONG KONG AND SHANGHAI BANK IN HONG KONG, IN WHICH JAPANESE FIRMS ALSO COMPETED. THEREFORE, WE VENTURE JAPANESE INTEREST MAY BE MORE COMMERCIAL THAN STRATEGIC IN NATURE.

2. USDEL MAY DRAW ON THE FOLLOWING IN RESPONDING TO JAPAN-

ESE DEL. THIS IS BASICALLY THE SAME INFORMATION REICHENBACH
GAVE NANA ON JUNE 16:

A. IBM APPROACHED THE USG LATE IN 1977 REGARDING THE
POTENTIAL SALE OF A LARGE COMPUTER SYSTEM TO THE BANK OF
CHINA, HONG KONG. NEGOTIATIONS CENTERED ON THE MODEL
3032, IN DUAL FORM, FOR USE BY THE PRC-CONTROLLED BANKS IN
HONG KONG FOR GENERAL BANKING SERVICES. THE COMMERCE
DEPARTMENT AFTER REVIEW , ADVISED IBM IT WOULD HAVE NO
PROBLEM WITH THE SALE OF LARGE COMPUTERS TO THE BANK
(ORIGINALLY CONFIGURED AS 370/158'S THE SALE PRESENTED AN
UNUSUALLY SENSITIVE PROBLEM, SINCE THE BANK OF CHINA IS A
COMMUNIST BANK OPERATING IN A BRITISH COLONY. COCOM
EXPORT REGULATIONS ARE APPLICABLE IN HONG KONG THROUGH THE
UK PARTICIPATION IN COCOM BUT SINCE HONG KONG IS A FREE-
WORLD COUNTRY THERE IS NO PROSCRIBED DESTINATION INVOLVED.
HOWEVER, THE LOCATION OF THE COMPUTERS RAISED GENUINE CON-
CERN REGARDING UNAUTHORIZED CIRCUITOUS USE OF THE MACHINES
BY THE PRC.

B. POSSIBILITIES OF DIVERSION WERE OF PRIMARY CONCERN TO
USG AGENCIES. PHYSICAL DIVERSION WAS PROMPTLY ELIMINATED
SINCE THE COMPUTERS WOULD BE IN AN OPEN FACILITY, THEIR
OBVIOUS USE DEPENDENT ON THEIR PHYSICAL PRESENCE IN THE
BANK OF CHINA FACILITY AND LONG-TERM IBM CONTRACTS FOR
PARTS AND SERVICE. THESE FACTORS ALSO LED US TO CONCLUDE
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THAT THERE WAS A LEGITIMATE END-USE FOR THESE MACHINES.

C. DIVERSION OF COMPUTER TIME VIA ACCESS BY MAINLAND
CHINA TO THE EQUIPMENT IN HONG KONG WAS A MORE SERIOUS
CONCERN. WE QUERIED BOTH IBM AND THE AMCONGEN HONG KONG
ON THE POTENTIAL FOR DIVERSION OF THE MACHINE BY USE OF
TERMINALS OR DIAL-UP DEVICES LOCATED ON THE MAINLAND BUT
TIED TO THE HONG KONG FACILITY. WE RECEIVED ASSURANCES
FROM IBM AS WELL AS FROM HONG KONG AUTHORITIES THAT THE
POTENTIAL FOR DIVERSION VIA TERMINALS LOCATED IN THE PRC WAS
MINIMAL. THE HONG KONG GOVERNMENT REGULATIONS REQUIRE THAT
ONLY DEDICATED TELEPHONE LINES AND HARD-WIRED MODEMS CAN
BE USED FOR ACCESSING COMPUTERS FROM OFF-LINE TERMINALS.
THESE MUST BE INSTALLED BY THE HONG KONG TELEPHONE COMPANY.
"DIAL UP" DEVICES NORMALLY ATTACHED TO THE COMPUTER ARE NOT
GOING TO BE USED. QUESTIONING THE POTENTIAL FOR SATELLITE
CONTACT WITH THE COMPUTER, WE LEARNED THAT THE BANK OF
CHINA WOULD REQUIRE A HKG PERMIT FOR AN ANTENNA, AS WELL AS
OTHER RECEIVING EQUIPMENT, WHICH IN ALL LIKELIHOOD WOULD
NOT BE ISSUED.

D. ON THE TRANSFER OF TECHNOLOGY QUESTION, WE DETER-

MINED THAT POSSESSION OF THE IBM 3032 COMPUTER WOULD NOT BENEFIT PRC TECHNOLOGY. THE MONOLITHIC CIRCUITS FOR EXAMPLE, ARE SO SOPHISTICATED AND COMPLEX THAT THE CHINESE COULD NOT REVERSE-ENGINEER OR COPY THEM. FROM THE STAND-POINT OF SYSTEMS ARCHITECTURE, THE 3032 IS THE SAME AS THE IBM 370/158-3, WHILE ITS CAPACITY IS COMPARABLE TO IBM'S 370/168 AND IS REGARDED AS A VARIATION OF THE 370 SERIES RATHER THAN A NEW-LINE ITEM.

E. TRAINING IS TO BE LIMITED TO A SMALL NUMBER OF KEY PRC PERSONNEL -- THE DEPARTMENT SUGGESTED 10 AS A LIMIT -- WHILE SOFTWARE IS ALSO TO BE LIMITED TO THAT NECESSARY FOR OPERATION OF THE BANKING PROGRAMS. ALTHOUGH THE NUMBER OF TERMINALS IS LARGE (ABOUT 700), THE HEAVY CON-
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CENTRATION OF NEIGHBORHOOD BRANCHES OF THE BANK IN HONG KONG REQUIRES A SIZEABLE NUMBER. IN ADDITION, THE BANKING SYSTEM USED IN ASIA (DIRECT TRANSFER TO ACCOUNTS VIA ON-LINE TERMINALS, RATHER THAN CHECKS) JUSTIFIED THE NUMBER OF TERMINALS APPROVED. COMPUTERS OF THIS TYPE ARE BEING USED WITH LARGE NUMBERS OF TERMINALS IN EUROPE, THE U.S., AS WELL AS IN JAPAN.

3. ON THE BASIS OF THE ABOVE, AS WELL AS THE CONDITIONS SPELLED OUT IN REFTEL B, THE USG APPROVED SALE OF THIS SYSTEM ON MAY 5. WE ARE SATISFIED THAT DIVERSION FROM THE INTENDED END-USE IS HIGHLY UNLIKELY, AND THAT ADEQUATE CONTROLS EXIST TO ASSURE THAT THE BANK OF CHINA COMPLIES WITH THE CONDITIONS.

4. RE PARA 5(2) REFTEL, THE DEPARTMENT HAS NO OBJECTION TO THE CHAIRMAN'S RECOMMENDATION TO DISCUSS SUCH SALES IN COMMITTEE. IN EFFECT, WE BELIEVE IT TO BE AT THE DISCRETION OF THE EXPORTING GOVERNMENT TO DETERMINE THE PROBABILITY, ON A CASE BY CASE BASIS, OF DIVERSION, PHYSICAL OR OTHERWISE, OF SYSTEMS OF THIS TYPE SOLD TO COMMUNIST ORGANIZATIONS LOCATED IN FREE-WORLD COUNTRIES. THE CHAIRMAN MAY WISH TO USE THE ABOVE EXAMINATION OF THE IBM CASE AS A STARTING POINT, REVIEWING THE STEPS TAKEN BY THE USG TO DETERMINE THE SUITABILITY OF THIS TRANSACTION. ALTHOUGH WE ARE NOT AWARE OF SIMILAR CASES BEING DISCUSSED AT COCOM IN THE PAST, IT WOULD APPEAR EVIDENT THAT THERE ARE CERTAIN INSTANCES WHERE SUCH SALES SHOULD BE DISCUSSED. THE USE OF THE CYBER 76 COMPUTER AT THE NUCLEAR FACILITY IN CERN (SWITZERLAND) BY SOVIET SCIENTISTS IS A SIMILAR, BUT CERTAINLY NOT COMPARABLE CASE. WE BELIEVE A KEY CONSIDERATION IN SALES OF THIS TYPE SHOULD BE THE "OPENNESS" OF THE FACILITY. THE USG WOULD NOT SANCTION THE SALE OF A COM-
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PUTER OF THIS GENERATION TO A SOVIET EMBASSY FOR EXAMPLE,
IN BRAZIL, IF THERE WERE NO MEANS TO MONITOR OR DETERMINE
THE CONTINUED PEACEFUL END-USE OF THE EQUIPMENT.

5. IF ASKED, USDEL CAN SAY THAT WE UNDERSTAND THAT THE
BANK OF CHINA BRANCH IN LONDON ALSO HAS A WESTERN COMPUTER,
WHILE THE TWO MAJOR PRC-OWNED STORES IN HONG KONG, YUE HWA
DEPARTMENT STORE AND THE CHINESE EMPORIUM, HAVE COMPUTER
FACILITIES AT THEIR DISPOSAL. VANCE

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